Flagship Group

Value for Money Statement

2017-18

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Value for Money Statement 2017-18

Value for Money is an important part of our culture. It sets the tone for doing the best for our customers – and is one of our fundamental values – to spend money wisely.

All our income is spent maintaining our existing homes, building new ones and maintaining and investing in services. Our main source of income comes from the rent our customers pay us and we are accountable for how we spend it. For us, Value for Money is about achieving the best possible results with the available resources; finding the right balance between cost, quality and effectiveness.

This Self-Assessment reviews our Value for Money (VfM) achievements during the past year and sets out challenging objectives for the future. Additional detail is provided in a report to be published in September 2018 at: www.flagship-group.co.uk/our-finances

We improve business efficiency through a culture of continuous improvement, which we call the Flagship Way. This has brought about transformational change in leadership, management and service delivery across the group. It means that all employees are engaged in the review and redesign of business processes and can challenge existing and traditional ways of working.

Through robust management we continue to outperform our business plan forecasts. This year we achieved a turnover of £133.7m, and delivered a new record £37.1m net profit, better than budget (£33.2m) and 2016/17 (£31.7m). Our operating profit finished at £55.9m, which increased from last year (£52.4m).

We retained a Moody's rating of A2 (stable) which reflects our strong operating margins, stable interest coverage ratios, solid financial management practices and the successful streamlining of governance structures.

We measure our performance against the previous year and benchmark ourselves against housing associations with between 15,000 and 30,000 homes. This year we have also included the sector scorecard metrics.

We use a colour coding system to highlight our VfM performance:

- Good
- Okay
- Requires improvement

Median has been used as the average to mitigate data skew risk and appraise an average for competitors in the sector of similar size.

Highlights this year include:

99.5% rent collection

266 additional homes delivered

+19 NPS score

£55.9m operating profit

£36.2m invested in improving our homes

£37.1m net profit to reinvest in new homes

Sector scorecard

Flagship was a participant in the sector scorecard pilot that was trialled before the new VfM standard was published. This was a voluntary participation, adopted by a large proportion of housing associations. A summary of the efficiency metrics used in the sector scorecard is set out on the right:

The operating margin in 2017/18 is reduced due to the acquisition of Gasway (our gas servicing and installation business which achieves lower margins). The number of homes delivered for affordable rent has increased year on year. The 2016/17 numbers included 122 market rented homes. Our strategic customer satisfaction measure is now shown through a Net Promoter Score. Highlights this year include:

- +19 NPS score
- Delivered 266 new homes, of which 12 were for outright sale
- 99.5% rent collected
- £36.2m invested in improving our homes
- £55.9m operating profit
- £37.1m net profit to reinvest in delivering more homes

Absolute and Comparative Costs	2018 Actual	2017 Actual	Peer Group 2017	Progress	Peer Comparison
Operating margin (overall)	41.8%	43.8%	33.0%		
Operating margin (social housing lettings only)	46.5%	46.1%	33.1%		
EBITDA MRI	240%	284%	205%		
Units developed	254	292	406		
Units developed (as a percentage of units owned)	1.00%	1.30%	1.99%		
Gearing	44.5%	44.7%	44.5%		
Customer satisfaction	N/A	93%	85%	NA	NA
Investment in new housing for every £1 generated from operations	0.76	0.63	0.77		
Investment in communities for every £1 generated from operations	0.00	0.00	N/A		NA
Return on capital employed	4.0%	3.8%	4.3%		
Occupancy rate (period end)	98.9%	96.2%	N/A		NA
Ratio of responsive repairs to planned maintenance	1.4	1.1	1.4		
Headline social housing cost per unit	£2,586	£2,656	£3,259		
Rent collected	99.5%	99.1%	99.7%		
Overheads as a percentage of adjusted turnover	6.9%	7.3%	11.5%		

Strategy

Our strategic framework focuses on the things that really matter and provides clear direction for how we run our business.

It centres on meeting our purpose: to provide homes for people in need and on our values – the bedrock of the Flagship Way:

- Great people doing great things
- Relentlessly improving performance
- Spending money wisely
- Delivering outstanding customer service

To meet our purpose and achieve our goal of helping solve the housing crisis in the east we focus on delivering new homes - we aim to increase the number of affordable homes we own by a net 2% every year.

The steadily increasing profits provide the cash to invest in new homes on top of the investment in existing homes.

During the year our operating margin dropped from 44% to 41.8% (as a result of the acquisition of Gasway). The operating margin for our core social housing lettings increased from 46.1% to 46.5 % reflecting the continued focus on efficiency and as a direct result of bringing gas servicing in-house. Our operating profit finished at **£55.9m**.

As part of our strategy we continue to:

1 Invest in digital technology to make it easier and quicker for customers to engage with us

2 Transform our services to ensure they continue to meet customer need and are cost effective

3 Bring services in-house to reduce cost and improve customer service

4 Invest in commercial activities that generate an appropriate rate of return for the Group

5 Make intelligent use of information to tailor services and target resources

6 Maximise income from assets

7 Continue to engage with key stakeholders to ensure our services are fit for the future

8 Invest in our staff's wellbeing

Growth

During the year, we added 266 homes to our portfolio, 212 of these were for social/affordable rent, 42 were for shared ownership and 12 were for outright sale.

Tenure	Handovers
Affordable/social rent	212
Shared ownership	42
Outright sale	12
Total	266

We sold 20 homes under Right to Buy (RTB) and had 48 shared ownership homes staircase to 100%. The net increase in homes for the year was 194.

Our development programme continues to gain traction and our five-year aspiration is to deliver over 3,346 new homes of which 2,781 are planned to be affordable with the remainder for outright sale.

We have over 900 secured homes against the 3,346 planned with a further 200 specific schemes progressing through our pipeline process.

Gasway has continued to grow, through additional work from existing clients and also through securing new contracts. We expanded our gas offering and acquired Milgas Services during the year. The move adds complementary services to those that Gasway already offer and provides a platform for strong growth in this area.

We entered into talks with Victory Housing Trust for a future partnership. The proposed partnership will create a 28,000-home landlord which will be able to deliver 10,000 new homes – of which 7,000 will be affordable over the next ten years – as well as enhancing services to residents and investing £500 million in maintaining and improving existing homes.

Through this partnership we will secure significant savings by 2021. This will be achieved through a combination of improvements in the delivery of the repairs service, efficiency gains in management costs, lower costs of new funding and achieving greater economies of scale in development.

Growth highlights this year

266
Homes added to our portfolio

212
More affordable or social homes

42
More shared owership homes

12
For outright sale

Finance

This year has seen a very solid performance that has delivered a new record £37.1m net profit, better than budget (£33.2m) and prior year (£31.7m).

The strong financial results are underpinned by embedded savings and strong operational performance with better than budget performance in void loss and control of arrears despite the further rollout of Universal Credit.

Our operating profit finished at £55.9m, which is higher than Budget (£53.7m) and last year (£52.4m).

During the year we generated £60.3m of cash from operations and £8m from asset sales. We raised £32m of new debt, repaid £7m of existing debt and spent £23m on interest and lease payments. We invested the remainder as follows: £36.0m in new homes, £14.6m improving existing homes, £2.8m on intangible assets (goodwill & IT software) and £1.1m on other fixed assets.

The year-on-year improvement of our financial results is matched by the increase in customer satisfaction, staff engagement and also the number of new affordable homes delivered in the year.

£55.9m

Our operating profit finished at £55.9m

£60.3m

We generated £60.3m of cash from operations

£37.1m

A new record £37.1m net profit

Customers
A voice for our customers

A new real-time feedback programme has been introduced to help understand customer satisfaction for all our service areas with a primary focus on improvement, rather than benchmarking.

This means we are able to continuously measure service interactions with customers (i.e. repairs and calls into the contact centre) using automated surveys. We have typically seen scores around 84% satisfied or very satisfied and currently each service area is improving with repairs satisfaction at a high of 88%.

To provide a better understanding of the overall relationship between Flagship and our customers, we have adopted the Net Promoter Score (NPS) measurement that provides a valuable insight into our customers' likelihood to recommend us as a landlord.

This year we achieved our ambitious strategic goal of +19 (up from +14 in 2017) and over 50% of customers rated Flagship a 9 or a 10 out of 10.

Over 50%
of customers rated Flagship a 9 or a 10 out of 10.

Customers

It is important we engage with our customers, and in the right way. Our online tool, the Platform, makes it easier for us to gain the views and opinions of our customers so we can make positive changes to the service we offer.

Membership of the Platform has almost tripled over the past year, with 891 customers now able to share their views and opinions with us compared to 309 the previous year.

During the year, we consulted customers on topics including: customer communications, complaints, our website, repairs, and rent communications.

Results are published for our staff to take action and shape services, and we inform customers about where they have made a difference.

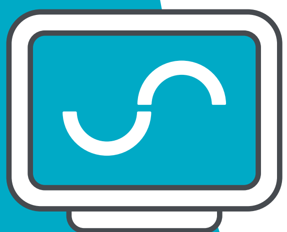
These include:

Rent letters

Improving communication going out to our customers, moving away from a detailed letter to a simplified booklet. Maintaining key information but creating more user-friendly correspondence.

Housing Ombudsman Service

A redesign of our complaints process to include clear information about Ombudsman complaints.



Our Customer Operations Group (COG)

COG work with us to help us understand what matters to our customers. The group allows us to ensure that customers are at the forefront of decision making as well as making sure we are transparent in all that we do.

In particular, this year COG has conducted three scrutiny reviews into customer-related services including the transition of gas services from Aaron Services to Gasway Services, our customer offer, and communication with our housing officers. These reviews have resulted in a wealth of insights and recommendations for us to significantly improve our services in these areas for the benefit of all our customers.

COG continue to comment on policies and in particular have added value to our complaints, anti-social behaviour and rental income policies.

We appointed three new members to COG at the end of 2017 who bring a wealth of customer service and housing experience.

Customers

During 2017/18 we have proactively invested £36.2m on improving the quality of our homes.

£21.3m has been spent on responsive repairs and £14.9m on capital. This has included:

- 831 kitchens
- 450 consumer units
- 227 sets of windows
- 624 bathrooms
- 784 doors
- 210 pitched roofs
- 165 re-wires

Our rent collection has improved slightly at 99.5% from 99.1% and our arrears were 3.1% at year-end.

We have reduced the number of outstanding repairs enquiries after identifying a large proportion of customer calls related to older repairs. Our focus has been to complete these as a priority. In addition, more works are completed daily leading to the number of complaints falling and positive customer satisfaction.

The introduction of an in-house Learning and Resolution Team has enabled us to deal with correspondence such as MP enquiries and complaints more effectively and efficiently. The L&R Team also contact customers who have previously provided low scoring feedback to gain a greater insight enabling us to make improvements to our services.

There has been a 34.7% increase in our self-serve options and digital interactions in the past year, compared to last year. This has resulted in a 10% decline in telephone demand to our contact centre enabling us to answer calls more quickly.

People

Our staff are important to us which is why we endeavour to create an inspiring place to work. In the latest employee satisfaction survey our staff scored Flagship 7.4 out of 10 as an employer of choice (7 out of 10 in 2016/17).

In addition to agile working, we continue to provide benefits for our staff such as the introduction of a wellbeing programme providing support and advice focusing on physical, mental and financial health.

We are passionate about growing our talent and continue to invest in our Apprenticeship Programme. To date we have recruited 34 apprentices into the business and there are 27 members of staff working towards qualifications across the Group. We have made savings of £33k by gaining in-house accreditations enabling us to deliver our own training in areas such as Health & Safety and First Aid.

In 2017, we launched our Bright Futures Programme, our first higher level apprenticeship providing a degree on completion as well as a guaranteed job with Flagship. The Programme aims to attract more young people into a career in housing and enables us to grow our own talent.

In today's competitive knowledge-driven organisations, we believe leadership is more important than ever, and requires more than just possessing the right technical skills – our leadership development programme and succession planning helps us identify people with the potential to be our leaders of the future. We foster a working environment that inspires our staff to reach their full potential and establish challenging goals that will ultimately set ourselves apart from our competitors.

Bright Futures

Matt Levesley and Ellie Colk, both 18, are Flagship's first Bright Futures apprentices. They will complete their course in 2020 after working with teams across the business.

Matt said: "When I saw the apprenticeship advertised I thought housing would be really interesting as it's so topical, especially at the moment.

"The course is fantastic as you get to work across a broad range of departments such as HR, Development, Response and Housing so you quickly learn about all aspects of the business and meet lots of different colleagues.

"Flagship is a really welcoming organisation and there are so many exciting things to get involved in."

Ellie said: "This particular apprenticeship really appealed to me as it looked different to many of the others which focus a lot on admin. Already we've been involved in lots of projects. I like the variety as you're always doing something different so no two days are the same.

"It's a great opportunity to learn valuable skills such as social and IT skills which you can apply anywhere."

Repairs and Maintenance

We invested £50.6m in our capital works programme this year.

Due to the successful focus on reducing the work in progress of responsive repairs, there was a £685k overspend on responsive maintenance. This was resourced using labour from the capital delivery teams and as a result there was an under delivery of £1.4m on capital spend.

We were £500k below budget (£1m) for void loss due to re-letting our void properties more quickly.

A newly implemented process and successful partnership working with RFT Services resulted in faster re-let times for our customers.

£36.0m
development of homes

£14.3m
property component replacements

£0.3m
re-modelling

Housing

Since the introduction of Universal Credit (UC), we have seen customer arrears increase – our predictions, would suggest that UC tenants are 3.7 times more likely to fall into arrears and 66% will remain in arrears for the next six months.

Our 'Rent First' approach includes our in-house software development team creating a new bespoke IT system to assist housing officers to effectively manage the collection of rent. The system will automate tasks such as sending text alerts to customers when their rent is due, or alerting them when a payment has been missed.

Other measures being introduced include:

Rent Recovery Process - processes revised to include the use of County Court Judgements (CCJs) where appropriate. A toolkit of options enables housing officers to select the most effective course of action depending on individual household circumstances. CCJs have been introduced to successfully recover debts while keeping customers in their homes, rather than facing possible re-possession action.

Data Analysis - further develop more predictive/intuitive measures going forward to enable us to take a more targeted and proactive approach to help support our customers. Analysing patterns of customer payment behaviour to more accurately predict future trends - not just the level of arrears but how and when people pay.

Financial Support Officer roles - to provide proactive preventative support as well as crisis management once a customer is already in debt.

Having trusted landlord status means we now have direct access to the Universal Credit portal enabling us to speed up the payment process as applications can be verified more quickly.

We have carried out 668 affordability assessments since our assessment tool was introduced in July last year. The number of those at high risk of falling into arrears has fallen compared to figures in February.

Affordability Assessment Summary

Month	% of lettings	% High Risk	% Medium risk	% Low risk
Feb-18	49%	19%	36%	45%
May-18	53%	17%	38%	45%

Asset Management

A main area of focus has been increasing the energy efficiency of our stock.

One way of delivering this is through renewable energy projects both large scale and on individual properties. These projects have the additional benefits of making our homes more affordable for the customers who live in them as well as generating income for Flagship through RHI grants. We have received over £25,000 so far which have contributed to the installation of 40 district ground source heat pumps and 19 domestic air source heat pumps.

To protect our customers and our properties we are making additional fire safety measures. We continue to have positive working relationships with the Fire Service and have made significant investment in fire safety. We are taking a best practice approach and have enhanced our risk control measures, for instance, we are installing smoke detectors and CO2 detectors in all our properties, which we aim to complete by March 2019.

We continue to make informed decisions of how we invest in our properties and through our robust stock-wide condition survey programme we are able to collect accurate data on each of our properties.

During the year we renewed our asset management plan which now clearly focuses on safety and compliance, on improving our internal and external relationships, data we can rely on, the environment and value for money.

Additionally, since 2017 we have carried out:

425 door improvements/repairs

252 door replacements

758 improvements/repairs to fire systems

132 lighting upgrades

15 fire system upgrades

Work in progress:

9 fire system improvements

6 new fire system upgrades

100 door replacements

160 door improvements/repairs

VfM Savings

£371k asbestos survey and removal contract

£302k utilities bills

£60k HR contract negotiation

£25k Government renewable heat incentive

£88k in-house training

£244k IT server storage

£146k IT software licences

£37k waste management contract

£80k in legal fees via introduction of a new electronic tendering system

£200k by increasing the car lease period to 4 years

Social Value

We have continued our drive towards making a real difference to others. By working in a sustainable and environmentally friendly way, we are able to deliver better services and cost savings that benefit our customers, our staff and the wider community.

We have formalised our approach to Corporate Social Responsibility (CSR). This is captured and driven by its four areas of focus – social value, environmental value, marketplace value, workplace value.

We have extended our CSR commitment by successfully incorporating new ways of working:

Measures have been taken to train our estate officers to use garden chippers, owned by RFT Services, so green waste is chipped and reused on communal gardens. This has eliminated waste costs and transportation costs to tipping sites.

Informed from a pilot project at a small number of our flats, we are installing smart technology units in 495 of our properties. These will help reduce fuel poverty and rent arrears, prevent damp and mould, increase digital usage and improve boiler maintenance.

SHIFT, the sustainability standard for housing, allows us to demonstrate how we are delivering against challenging environmental targets each year and this year we achieved Silver accreditation.

This year we won the SHIFT best corporate sustainability project award for our staff wellbeing plan.

We have undertaken a nine-month trial to use a Lightfoot device in 18 Estate Officer and RFT Operative vehicles. The Management and Driver Behaviour device helps fleet drivers get the most from their vehicle by driving safely and efficiently. This creates fuel savings, improves driver well-being and benefits the environment.

The results to date have been encouraging and include:

- 12% fuel saving
- 23% reduction in time spent idling

Estimated NET savings:

- Over 3 years = £5,540, over 4 years = £10,005, over 5 years = £14,676

Estimated CO_2 savings (tonnes):

- Over 3 years = 15t, over 4 years = 20t, over 5 years = 25t

RFT Services was awarded OHSAS 18001, ISO 14001:2015 and ISO 9001:2015 for Health & Safety and its Quality Management and Environmental Systems. They are international standards that demonstrate commitment to quality services and reducing environmental impact while driving down costs, improving productivity and boosting customer satisfaction.

Our metrics

Absolute and Comparative Costs	2018 Actual	2017 Actual	Peer Group 2017	Progress	Peer Comparison
Housing stock	22,705	22,521	N/A		NA
Return on public capital invested (RPCI)	19.1%	16.1%	N/A		NA
Current arrears	3.1%	2.9%	3.2%		
Void loss	0.5%	0.8%	0.9%		
Relet days	29.6	46.3	N/A		NA
Average cost of funding	3.7%	3.8%	4.6%		
Cash generated per unit managed	£2,656	£3,569	£3,201		
Debt per unit	£27,575	£27,248	£25,469		
£s invested* for every £ generated	0.76	0.64	0.77		
Interest cover	299%	289%	274%		
Net Promoter Score	+19	+14	N/A		NA

*Net of proceeds from sale of fixed assets

VfM – our 2017/18 plans and how we did

29.6 days

Objective: Improve our void re-let times from 46.3 days

Result: Re-let times reduced to 29.6 days

296

Objective: Deliver 296 new homes

Result: We delivered 266 new homes (the acquisition of 50 market rented properties was within the 296 budget but not acquired during the year)

+18

Objective: Achieve a Net Promoter Score of +18

Result: Achieved a Net Promoter Score of +19

£2m

Objective: Embed £2m savings plus £1m additional savings on materials and vehicle fleet.

Result: Achieved the embedding of £2m savings

£18.6m/£19.8m

Objective: Invest in improving our homes = £18.6m responsive and £19.8m capital / remodelling

Result: We invested £21.3m on responsive repairs and £15.0m on capital/remodelling

3%

Objective: Maintain arrears levels below 3.0%

Result: Arrears levels were 3.1%

Digital

Objective: Improve our digital offering

Result: We improved our digital offering - newly designed websites and IVR payment

Re-let

Objective: Improve re-let customer satisfaction

Result: Re-let customer satisfaction improved to 76%

New Value for Money Standard

For the next financial year, starting on 1 April 2018, there is a new Value for Money standard that comes into effect. A result of this will be that housing associations will report VfM in a less narrative manner, and publish a set of standard metrics as set by the regulator. The regulator also expects housing associations to publish any additional metrics needed to evaluate how they are achieving their own strategic objectives.

Regulator of Social Housing VfM Metrics

A summary of the efficiency metrics used in the updated VfM standard is below:

Absolute and Comparative Costs	2018 Actual	2017 Actual	Peer Group 2017	Progress	Peer Comparison
Reinvestment percentage	6.7%	3.8%	7.1%		
New supply delivered (Social housing units)	1.16%	0.43%	N/A		NA
New supply delivered (Non-social housing units)	0.05%	0.01%	N/A		NA
Gearing	44.5%	44.7%	44.5%		
EBITDA MRI (interest cover)	240%	226%	205%		NA
Headline social housing cost per unit	£2,586	£2,656	£3,259		
Operating margin (overall)	41.8%	43.8%	33.0%		
Operating margin (social housing lettings only)	46.5%	46.1%	33.1%		
Return on capital employed (ROCE)	4.0%	3.8%	4.3%		

VFM Objectives for year 2018/2019

£52.3m
Operating profit £52.3m

529
New affordable homes delivered 529

544
New homes delivered 544

+28
Annual net promoter score +28

7.8
Staff satisfaction score 7.8

£3.5m
Arrears £3.5m

Further reduction of outstanding repairs

Improve digital offering